RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Mar. 20 DJIA 8906.43; PTI 5220; A-D Ratio +12.68
Dow Yield: 1.57%; Dow Price/Earnings: 22.9
Dow Times Book Value: 6.29; PTI 89-day MA: 5182
Percentage of Undervalued Blue-chips: 2%
Gold 34-day MA: 298

THE MARKET: In this or any other market, you have to deal with two phenomena. (1) What you think the market **"should"** be doing, based on your studies of fundamentals, valuations, historic ratios, etc. (2) What the market is **actually** doing, minus or ignoring all of #1.

Let's start this Letter with what the market is **actually doing.** In other words, let's deal with reality. The reality is that the market has been pushing higher. That's documented by both the advance-decline ratio (which is a good proxy for the entire NYSE) and my Primary Trend Index (PTI), a composite index which defines the true underlying trend of the market.

In a section below, I provide a few examples of what some very knowledgeable analysts believe this market "should" be doing. Are these guys bonkers? Have they lost it? Not really. They know that ultimately "values will out." But the market today has been caught in a national (make that international) mania, and manias invariably run to conclusion. The conclusion -- always -- is exhaustion. Therefore, count on it, today's mania to own stocks at any cost, at valuations never seen before, will end in only one way -- in total market exhaustion (Note: the **yield** on the S&P 500 has dropped **below 1.5%** for the first time in history).

In the meantime **it is critical that we deal with reality, and the reality is that this market still wants to go higher.** When cold reality confronts mania, mania will win, and mania will continue to win -- until the market reaches the exhaustion point.

Should you join in the mania (let's just call it the fun)? That's a personal choice that only you can answer. In these reports I tend to be heavy on information and lighter on advice (more on that in the Notes & Quotes section).

Price action during 1998 has been clear enough; the action has been uniformly bullish. For instance, on March 16 my **PTI** hit a record high confirmed by a new high on the **advance-decline ratio** (see page 2 chart).

The next day, March 17, produced a very rare sight. On March 17 all three D-J Averages, Industrials, Transports and Utilities closed at record highs confirmed by a record high in the S&P Composite (I can't remember the last time that happened).

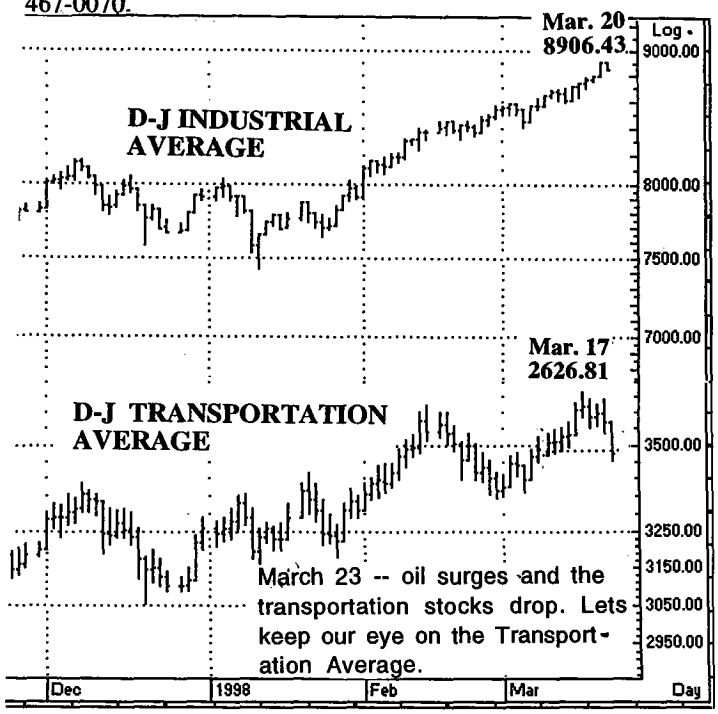
Conclusion: Fight the trend at your risk -- but be well aware that the trend of the stock market remains **bullish.**

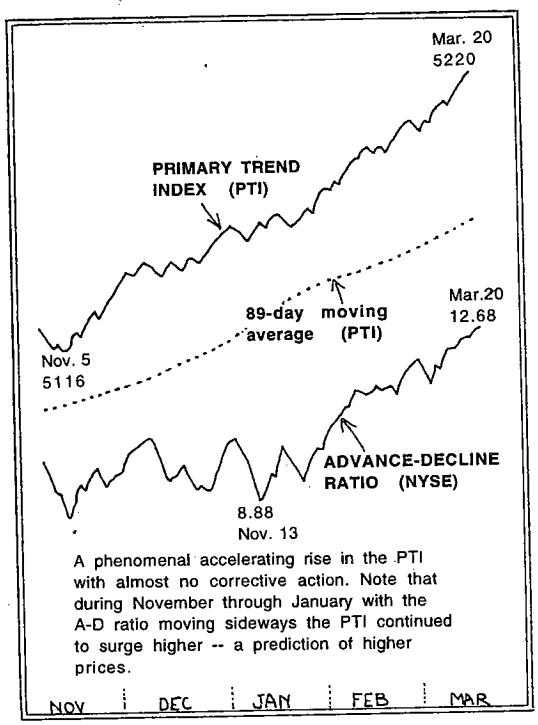
FOR: The best things going for the stock market is the very favorable monetary environment (rising bonds, strong dollar) and the continuing massive flood of money that daily flows into Wall Street (i.e., $19.6 billion in equity mutual funds in February alone). **Note:** I believe that the process of **automatic re-investment into index funds** has been a big factor behind this market's ascent into the stratosphere.

AGAINST the above, we have the problem of over-valuation. *Ned Davis Research* believes that 12-month operating earnings for the S&P will be $47.76. If that pans out, it means that the year-to-year increase in S&P earnings would be only 6.7%. The historical norm for price/earnings is 14.1. Writes Ned, "Using the historical norm of 14.1, the S&P 500 would have to drop to 673 to be fairly valued. From the S&P current level of around 1030, that would represent a 35% drop, Again, as long as the monetary environment remains favorable and actual deflation is staved off, such a decline will be unlikely. But these perspectives do underscore the **magnitude of the market's long term risk."**

The *Bank Credit Analyst* appears to agree. The latest (March) issue of *BCA* states, "Both the ratio of the S&P 500 to the year-ahead earnings and the gap between real bond yields and the S&P earnings yield are at post-WW II peaks. We estimate that the market is priced for long-run earnings growth of more than 10% a year. This seems an impossible target in a world where the trend growth in nominal GDP is likely to average no more than 5% a year. . . The stock market is between 20% and 25% over-valued, even if we assume 7% long-run earnings growth."

Writes well-known economist A. Gary Shilling, "Weakening exports, growing imports, lower import prices and currency translation losses are bad enough for corporate earnings. But they are worse because there is no offsetting give in US domestic costs, at least not in the short run. . . . But now with the effects of the Asian crisis spreading and intensifying, earnings appear very vulnerable for many US firms. . . . If the Asian flu is to send US corporations to the hospital, we'll probably know it by mid year--and so will stock investors. Even with a big bear equity market, individual confidence in stocks is so high that it might take until late in the year to frighten consumers into heavy duty retrenchment. The resulting recession might start roughly at vear's end." **Note:** Gary was one of the very first to foresee disinflation in the U.S. (975) 467-0070.



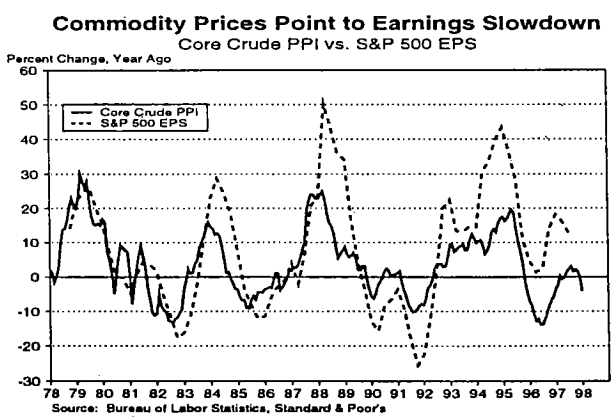


Comment: The P/E ratio for the S&P (based on the most recent 12-months' earnings) is now an astounding 27; this is by far the highest multiple ever applied to record earnings. How or why is the market valuing earnings so richly? The answer is provided by the excellent *Hussman Econometrics* (800 487 7626): "On the surface, stock prices are advancing with little risk. Yet the primary cause is an unsustainable expansion in price/earnings, price/revenue, price/book and price/dividend multiples."

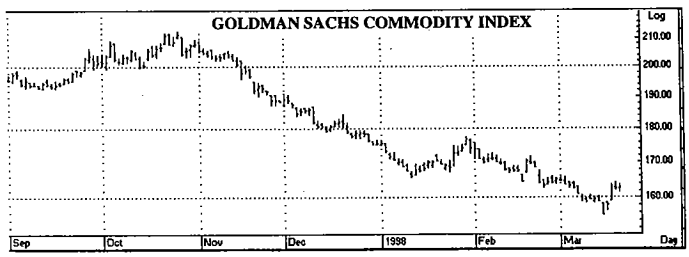
PROBLEMS: Three major problems continue to face the stock market. **(1)** The drastic deflation in commodities. **(2)** the Asian crisis, which remains a crisis. **(3)** The very optimistic view of earnings growth in '98 and even '99, a view which some analysts are beginning to question.

Asia: As Asian nations struggle to revive their mangled economies, they have one major desire -- export, export, export. And, of course, their main export target is the consumption-happy USA. The flood of low-priced goods from Asia is the source of any deflation in the US, although over-production is also a factor. Then again, in certain industries such as computers, vicious competition and market saturation are additional reasons for price deflation. Lack of pricing power plus rising wages threaten to squeeze corporate profits, but here again the stock market has looked the other way.

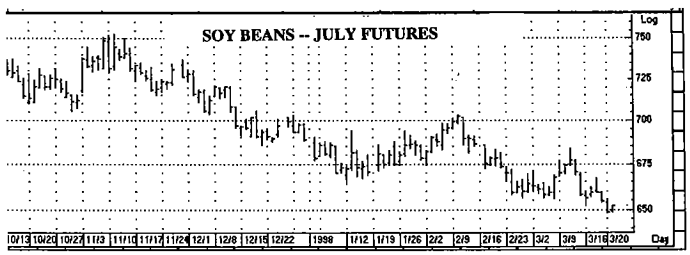
Commodity deflation and lack of pricing power may be a blessing for US consumers, but they are a problem for corporations. The chart below (courtesy of Merrill Lynch) shows the relationship between the S&P 500 and the core crude Producer's Price Index. Says Merrill, "The core Producer Price Index for crude materials is down an eye-popping 17.8%. . . .Because industrial material prices are a sensitive surrogate for corporate pricing power, the core crude PPI correlates highly with earnings momentum (see chart below). Every time the core crude PPI has gone negative on a year-to-year basis, earnings momentum has slowed sharply and usually gone negative."



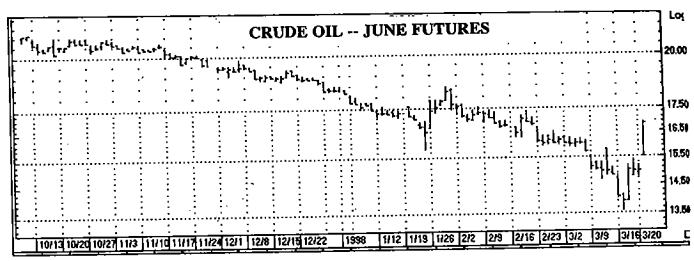
The Goldman Sachs Commodity Index provides a vivid commentary on what's happened in the battered world of commodities.



El Nino was supposed to devastate crops. It never happened. Today there's over-supply in all the grains and cereals and the prices reflect it. Here's a chart of the beans (be glad you don't own 'em).



A feature of the current market is the extraordinary collapse in the price of oil. Here are the June oil futures, showing the drop to the 13.59 low of March 17, and then the March 23 surge as news came out of a cut-back on the part of seven OPEC nations.



What does the phenomenal drop in the price of oil mean? For one thing, it's deflationary. The most interesting comment I've seen on the oil drop comes from *13D Research* (208 726 1565) "The last time we had a major drop in oil was 1986. While the long bond was already in the midst of a major rally, lower oil prices added fuel to the flames. In a two year period, the yield on the thirty-year US Treasury bond fell from 14% to 7%. Declining inflation and interest rates in the US are dramatically increasing real wage rates, which is partially responsible for the pick-up in US economic growth. A further drop in oil prices and bond yields would also be highly stimulative. But this would only increase tax revenues and boost the government's surplus still more, further improving the supply/demand for long-term bonds." **13D** also notes that in 1997, for the first time in history, Venezuela became the US's largest foreign provider of oil -- which obviously lessens the US's reliance on Mid-East oil."

OVERALL CONCLUSION: The trend of the market remains bullish. Risks are high, but this market has been high-risk for the past few years. Ultimately, values will out, but -- not yet.

To my mind, there are two legitimate views of what is happening. (1) One is that the stock market is in a **mania phase,** a phase disconnecting it from reality, and this mania, like all previous manias, will end in disaster. It's simply a matter of timing.

(2) The opposing view is that the stock market contains all the information anyone knows about anything connected with the political, social and economic future of the nation. In other words, the stock market is the world's best **discounting mechanism.** Therefore, today's seemingly fantastic prices are, in reality, a forecast of incredibly prosperous times ahead for America -- ahead as far as the eye (or the market) can see.

Two views, each legitimate -- take your choice. Personally, I grew up as a true believer in #2, which is the classic Dow Theory view. Nevertheless, it's certainly difficult to ignore #1.

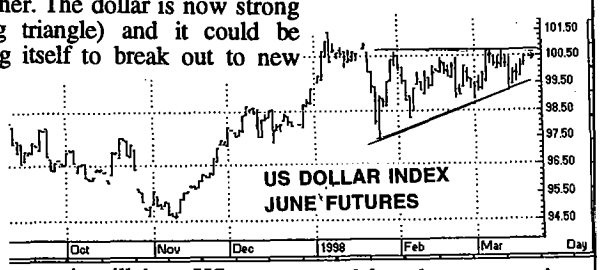
One Problem: For the first time in history, the yield on the S&P has dropped **below 1.5%.** The long Treasury bond yields just under **6%.** This is the same **4-to-1 ratio** that existed prior to the 1987 crash. Sorry, but that lop-sided ratio bothers me. I believe that for the stock market to move up substantially from here, the **bonds must advance.**

BONDS: Referring to the daily chart shown on page 6, the June Treasury bond futures hit an extreme high of 123 28/32nds on January 12; the bonds then corrected down to an extreme low of 118 10/32nds on March 6. Note that the January-March decline was not powerful enough to force the 34-day moving average below the 144-day MA. This was a sign of bond strength.

On March 12 the bonds pushed above their 34-day MA again, a constructive sign. On the same day the 34-day MA turned up, another positive sign. As this is written, the bonds remain in the bullish mode and the upside target for the futures is 122 (122 would take the bonds above their previous peak set on February 18, shown as "A" on the chart). See page 6 for the latest on bonds.

INVESTMENT POSITION: In order to make money in the markets, real money, you must be able to take a fairly large position in some item (I'm talking about a large position in relation to your own total assets).

Personally, I've opted to take a large position in bonds. The T-bonds are already up six points from where I first recommended them. I think they could go up further. The dollar is now strong (ascending triangle) and it could be positioning itself to break out to new highs.



If this happens, it will hurt US exports and knock our negative trade balance even further out of balance, a condition the Fed would certainly not want. Therefore, if dollar strength is to continue, it would not surprise me to see the Fed lower rates (they may not want to lower rates but they'd feel forced to). If this occurs, the bonds could soar. Anyway, that's my view of the situation (of course, soaring bonds would also exert a bullish force on stocks). Note: this news clip shows how the weak yen is causing Japan's trade surplus to surge.

JAPAN: Trade surplus balloons

The current account surplus was up 212.8% in January from a year ago, the Finance Ministry said. It totaled 476.2 billion yen ($3.75 billion).

The sluggish economy held down demand for imports, and a weak yen boosted exports. Japan is facing pressure from the U.S. and other trading partners to trim its surplus by stimulating domestic demand through more government spending and tax cuts.

As for bonds, I continue to like the long Treasury bonds. These are the most sensitive to interest rates and by far the most liquid of any investment (you can buy or sell almost any quantity of T-bonds, instantly).

One of the most accepted concepts is that stock price/earnings ratios are a function of prevailing interest rates. Almost every analysts adheres to this concept. However, there have been times when this was not the case. For instance, during the '30s interest rates collapsed while stocks remained in the dumps. Somewhere ahead we could experience a period of zero inflation while at the same time equity earnings are being squeezed by rising wages and a total lack of pricing power. In this kind of environment we could witness the unusual sight of stocks and interest rates going down together.

Dividends: From 1926 through 1997 the S&P provided a total return of 11.00%. Of that 11%, 41.3% came from dividends and 58.7% came from appreciation. Today with S&P dividends down to 1.48%, the S&P would have to rise at an annual 9.5% rate to continue to return the historical average total return of 11%. With three consecutive years of over 20% appreciation, that's going to be hard to do. Remember, the stock market, following two years of over 20% appreciation, has never previously had a good third year (1997 was an historic first). This is one of the reasons that value investors (and old timers) feel safer with bonds than with stocks.

NOTES & QUOTES: This September will mark *Dow Theory Letters'* fortieth anniversary. If anybody, back in 1958, had told me that I'd still be writing these Letters in 1998 I'd have told him that he was Loony Tunes. Nothing in this business, I would have added, lasts forty years, and most definitely not an investment service.

I guess I was wrong. And I've often wondered what happened. I really think it's the following, and I got this advice from the great Dow Theorist, Robert Rhea. Rhea wrote back in 1938 that he had never seen one man follow the explicit investment advice of another over a period of years -- and come out ahead.

In the course of the last forty years I've watched many advisory services publish theoretical and even actual portfolios of stocks. Somehow or other, things seldom (dare I say never) seem to work out. Either the portfolios aren't successful or somewhere along the line the market clobbers two or three stocks in the portfolios -- and the followers get discouraged and switch investment services.

I'll be honest, the great bulk of my subscribers are quite sophisticated. I really don't think they read me for specific advice -- well, maybe a little advice. I gather that most of my subscribers, and this includes the many institutions, funds, hedge funds, banks, etc., are going to do their investing their own way. As far as individual subscribers are concerned, a great many of them operate in the market today with mutual funds or index funds rather than specific stocks, so these individuals are not too fascinated with any "stock portfolios" that I might want to tout.

No, I think the real reason that probably 90% of my subscribers read me is that they're looking for **information** rather than specific advice. They want information, they want my thoughts, they want positions, they want contrary opinions, they want stuff that makes them think and maybe even re-think their own positions. Here's my test: When you put a copy of *Dow Theory Letters* down, do you know any more than when you picked it up?

Of course, subscribers are interested in my Dow Theory interpretations (still bullish) and whether the bull is still in the box (he is) or whether my Primary Trend Index is still bullish (it is). But with 6,000 mutual funds available, with Spyders and

Diamonds available, with futures and options available, most sophisticated investors realize that they don't need that "list of twenty stocks guaranteed to double in the next 12 months." First of all, they know such promises seldom pan out. Secondly, they know that every major brokerage house in the nation offers its own lists of stocks, and many of those lists are very good and well worth studying.

No, Dow Theory Letters has never been a tout sheet and it has never been a "theoretical portfolio" service. True, when I believe the stock market is a bargain I've listed stocks that I believe are a buy -- and I'll do it again. But right now I think stocks are expensive -- so no list.

I know there are dozens and dozens of advisory and investment services in this business today (when I started out in 1958 there were maybe five), and a lot of these services either subscribe or exchange with me. So if the above philosophy is of any use to you guys and gals, the pleasure is all mine. It's my philosophy based on what I've learned in four decades of writing *Dow Theory Letters*. It's worked for me, and I've always had a great time (although often a tense time) writing my thoughts on the market and, I guess, just about everything else.

One more comment: Back many years ago I bought ten shares of Berkshire Hathaway at 250 bucks a share (which seemed pretty expensive at the time). I knew that Warren Buffett wrote great annual reports, and that, frankly, was the reason I bought those ten shares. I loved reading Buffett's brilliant, original reports. I think it was about eleven months later that my Berkshire shares rose to 500. Wow, I'd doubled my money in less than a year! So blessing my dumb luck I sold the shares. Brilliant move. Today those shares are worth over $63,000 each or a total of $630,000. Conclusion: Everybody does his own thing, and I did mine. What did I learn from my Berkshire experience? I learned this -- don't waste your time mulling over "what you should have done." Learn what you can from the past, but spend your time and energy on what you're going to do today, and what you're going to do tomorrow. Great moves may be on the table for the picking as you read this Letter. And remember -- all the great moves don't always have to entail buying. Pssst, occasionally they even entail selling.

I just read Buffett's latest annual report. He laments that there is not much to buy today (on a value basis) and he did do some selling of stocks. Buffett ended the year with $10.2 billion in bonds in a $46.5 billion portfolio, which should tell us something. He bought zero bonds and silver (he's up $400 million on his zeros and probably sweating the silver). Buffett was very careful and politic when he said that stocks may not be overpriced, but I was more interested in what he did than what he said.

New PCs with some of the fastest Intel Pentium and AMD KC microprocessors now cost as little as $799 (without a monitor). Experts believe that with increasing competition from WebTV and network computers, the era of the $500 PC is not far off.

Germany is about to re-adjust its inflation index, which authorities say overstates inflation by .75%. Thus, Germany, like the US, is moving to re-adjust its inflation picture along with its pension plans.The US and Europe are now on a path which, by year-end, could be down to "zero inflation." On March 12 the April oil contract broke temporarily to a low of 13.98, a major factor in inflation/deflation. If zero inflation is reached, it will be seen the rate on the long T-bond (currently just below 6%) is far too high. Thus, there will be pressure for lower rates and maybe the long bond at a yield of 5.5% or even lower.

GERMANY: Inflation lowest since '91

German prices were up only 1.3% in January from a year ago, the lowest inflation rate since the series was started in '91 after reunification.

The 1.1% year-over-year rate in the West was the lowest since April 1988. Some analysts said the declining trend could cut inflation to zero in coming months.

A few subscribers have suggested that I get off Clinton's back. And maybe I should. But I hate hypocrisy, and detest this White House. The Administration crew tells us that what anybody does in his private life is his business, not the business of the press or Mr. Starr's. That's the target that the White House **wants us** to zero in on. But that's NOT the issue, and they know it. The issue is not the President's varied sex life, it's the fact that he has LIED to the American people -- and that he may have encouraged perjury. So liar, perjurer, hypocrite, sexual predator, is that what we've got in the White House? In my opinion, it is.

Maureen Dowd (op-ed section *NY Times,* Mar. 11) has finally figured it out. "Perhaps Clinton is the Devil. It would explain a lot. Certainly Hillary is condemned to her own hell. Certainly the voters have closed their eyes and made their pact with the Devil: Keep us prosperous, and we won't hold you to any special moral or ethical standards. The Mephistophelean scenario has wonderful logic. It would explain the extraordinary level of human sacrifice around Bill Clinton -- why so many people around him end up dead, jailed, betrayed, shackled, exiled, subpoenaed, depressed, humiliated, broke, ruined and smeared (and in the case of poor Buddy, neutered)." **Russell note:** Did you watch Kathleen Willey on TV's "60 Minutes." If her story didn't have the ring of truth about it, then I've never heard the truth. One feminist finally confessed, "That wasn't sexual harassment, that was sexual assault." Meanwhile, the list of people that Clinton claims are lying about him continues to grow.

Speaking of our President, I note a rising acceptance of adultery in the nation (the statistics don't lie, people are doing it, wholesale). After three marriages and a lot of experience I can tell you that adultery is a bad thing and a loser. Why? First, it places an invisible wall of lies between two people, and it absolutely ends intimacy (intimacy is the critical "glue" of marriage). Second, it causes the adulterer (unless he or she is a sociopath) to be filled with guilt. Guilt is extremely stressful and can even be a killer. Third, adultery splits a person, renders you emotionally schizophrenic; it forces you to be in two places emotionally. Fourth, adultery renders you a coward and a liar; being an adulterer means that you're afraid to face your spouse with where you are and what you're doing. Fifth, as an adulterer you invariably turn your spouse into the feared "bad person," the person who can punish you, increase your guilt or divorce you if the truth comes out. Sixth, adultery is just plain stupid. I firmly believe that where your sex is -- that's where you should be and who you should be with. One caveat, if your sex is random or if it's sick, you should not be married at all -- or if you want to stay married you should be in treatment. How do I know all this? I know.

I continue to receive letters asking me about chelation (pronounced key-lation). Now there's an organization called "Friends of Chelation" at 255 North El Cielo Rd., #670, Palm Springs, CA 92262. Write them for information about chelation, it just could save or prolong your life if you have heart or cardiovascular trouble. By the way, I receive a lot of literature about oral chelation, which is taking vitamins, anti-oxidants, minerals, herbs, etc. as a substitute for intravenous chelation. From what I've read, oral chelation (while it's probably healthful) is NOT a substitute for intravenous chelation. According to *Newsweek,* bypass surgery costs Americans $43 billion a year (363,000 bypass surgeries a year). *Men's Health* magazine (March, '98) in a Special Report entitled "Too Many Bypasses" lists bypass substitutes. They list angioplasty, stents, keyhole surgery. C'mon, these are all forms of invasive surgery -- not a single word about chelation. Interesting. The following on the Internet provides an excellent picture of chelation: http://www.ephea.com/chelther.htm

Note: Last week's *Newsweek* carried an excellent article about Dr. Dean Ornish and his remarkable work in reversing plaque build-up in clogged arteries via a regimen of a strict non-fat diet, meditation, group interaction and exercise - plus his latest additions to the regimen - love and intimacy.

Movie theaters are wondering what is in store for them after *Titanic* finally fades out. *Titanic* has accounted for an astounding 27% of all ticket sales so far this year. Now Hollywood is coming up with

a new load of disaster films including *Godzilla, Species 2, Mighty Joe Young* and *Lethal Weapon 4*. Theater owners complain that they are being inundated with "sameness." The question they ask: "How many disaster films can we sell?"

The talk is that financing for films will be tight this year. Ah, the cynicism. Says Nigel Sinclair, founding partner in the investment firm, Intermedia. "The lessons from *Titanic* are that there are no lessons from *Titanic*. Same with *The Full Monty*. It teaches you absolutely nothing, except that they're jolly good films and you should go see them." Figures: Last year there were 457 films released of which 197 came from major Hollywood studios. The average cost to produce, market and distribute a movie last year was $76.6 million, up 27% from 1996. Russell advice: If a friend asks you to put up money to back his new movie, tell him "Thanks, but no thanks."

Good time for the top NFL football players. With the salary cap going up $10 million to $52.3 million a team, the top guys are raking in the bucks. John Randle of Minnesota signed for 5 years at $32.5 million with a $10 million signing bonus. Dana Stubblefield signed with Washington for 6 years at $36 million and an $8 million bonus. Ted Washington signed with Buffalo for 5 years at $27 million with a $6.5 million bonus. And these aren't quarterbacks, they're linemen. Football fans are wondering how much it will take to sign up the top ten draft picks in the coming April draft.

Euro and Y2K: Less than 10 months from now the euro, the single European currency, will come into being. The euro will surely provide competition for the dollar. Nations that will qualify for the euro, so far, are Germany, France, the Netherlands, Belgium, Luxembourg, Austria, Finland, Ireland, Italy, Spain and Portugal. Greece won't make the Treaty's qualification and Sweden, Denmark and Britain have decided not to join, at least in the first round. The euro will be large enough and liquid enough so that whole areas of trade, such as oil or chemicals, will switch to the euro or at least offer the euro in tandem with the dollar. In addition, some portion of the $1.4 trillion in foreign exchange reserves held by world central banks (now overwhelmingly held in dollars) will be diversified into euros.

One of the fascinating things about economics and the markets is the shockers that seemingly come out of left field. Regarding the euro, a **mind-boggling problem** will be "fixing" Europe's computers not only to handle the Millennium bug but also for the euro. Exchange rates and tax software will need to be upgraded, financial statements redesigned, automated teller machines revamped and historical data converted, and that's just scratching the surface. The Gartner Group Europe estimates that it will cost European corporations, many of which have worldwide operations, $150 to $400 billion to upgrade their systems. Add euro expenses to the Millennium bug and those estimates will double. The cost of fixing each line of code is estimated at $1.10. Says Nick Jones of the Gartner Group, "The magnitude of the problem the euro poses is unbelievable." As for **US costs** for dealing with the Millennium bug, Chase Manhattan says it will spend $300 million on Y2K work while American Airlines says it will spend $100 million. Writes *USA Today*, "Estimates of the bill for Corporate America as a whole range into the low trillions." **Russell Comment:** This could easily end up in panic. Finally, consider this: according to the Gartner Group, worldwide 70% of information system professionals and 45% of financial organizations are not even fully aware of the issues involved.

More on Y2K, the dreaded Millennium bug. Produce Palace in Warren, Michigan is suing American Cash Register. Why? It seems that when credit cards with the year 2000 (or beyond) expirations are used by customers, all their registers go down. "A lot of people walk out," says Produce Palace's owner. "This thing is going to dwarf the tobacco settlement," says Produce Palace's lawyer. And the lawyer may be right. *CIO* magazine polled top corporate executives on Y2K, and 67% opined that the Millennium bug will NOT be fixed by the year 2000.

Here's a letter I received from a subscriber last week. "Dear Mr. Russell, I've been a subscriber for some time and agree with you most of the time, but in your last issue you opined that we would be stuck with the present tax code until we have a Republican president. I would have to disagree with you because of Y2K. IRS has confirmed that they will not be compliant by 1/1/2000, which means that they will have no way to collect taxes under present code. The president and Congress are well aware of this and inasmuch as the IRS will not know where its citizens are or have any way of determining how much they owe, we will be on the honor system. Given the level of morality in this country at the present time, I doubt that the government will find that acceptable. A flat fax will run into the same problem as it relies on the IRS having the ability to collect. A sales tax of some kind that is collected by the states and sent to Washington could be implemented, as the mechanism to collect is already in place in 46 states. Over the next 9 months this situation will be given more and more ink and Congress will tell us that they have no choice but to make a change and the president will 'reluctantly' agree. For once they will be telling the truth. I think that it will be Y2K that will bring down the market, and I believe that you would do a great service for your readers to give it more of an airing. By the way, HHS, FAA, HCFA, and the Agricultural and Defense Depts. will not make it according to GAO nor probably will Social Security (and they have been working on it for 7 years). Very truly yours, D.S. from Nevada." Russell Comment: If this subscriber is right, hold onto your hat!

Here's a shocker, but it's history. Nine US presidents were slave-holders: Washington, Jefferson, Franklin, Madison, Monroe, Andrew Jackson, John Tyler, Zachary Taylor and Andrew Johnson. The wife of Ulysses Grant owned slaves. But remember, slavery was taken for granted by Southerners and many Northerners into the 1860s and well beyond. History differentiates between those slave-holders who tried to change things and those who didn't. Washington and Franklin would pass the test, Jefferson would probably fail. Half the signers of the Declaration of Independence owned slaves including John Hancock, Patrick Henry ("Give me liberty or give me death"), Hamilton, Henry Clay (he freed them in his will), and Texas independence fighter Sam Houston.

With their currencies smashed, inflation is starting to hit hard at various Asian nations. Indonesia's inflation rate in February soared to 32%, on the brink of hyper-inflation according to the government. South Korea, in the face of the long slide in the won, saw producer prices in February climb 17.7%. The rising inflation will hurt Asian exports, the last thing they need.

Apple: Surprise, Apple's stock price is at 26, a 100% rise from its low of 13.12 struck on Dec. 31. It's the old story, "don't tell me what to buy, tell me when to buy it." So far in '98 Apple has actually far outpaced other PC stocks such as Compaq or Dell. Apple is working on a portable TV set-top entertainment device that offers Internet access and plays everything from music CDs to DVD movies. The secret webTV-like internet access device could move Apple up to be a contender again.

The government is talking zero inflation. Last week I ran into an old friend of mine, a local real estate operator. Here's what he told me: "Russell, I don't understand this 'no inflation' stuff that we're hearing. Prices here in La Jolla are surging. Some of my property is up 40% over the last few years. Inventory is very low, my hotels are filled, apartment prices are going through the roof. If I put a property up for sale, they line up to buy it at literally any price that I ask. No inflation, what are they talking about?" Anyway, that's what this real estate guy told me. Go figure.

Computer companies may be declining in price but the market prices of Internet companies are booming. Shares of Amazon.com, the online book-seller have risen 31% taking its market value to $2 billion, almost as much as Barnes & Noble, the US' largest bookseller. Yahoo shares have risen 36% this year. Says John Doerr, king of Silicon Valley venture capitalists, the Internet stock boom is the greatest legal creation of wealth in human history. The

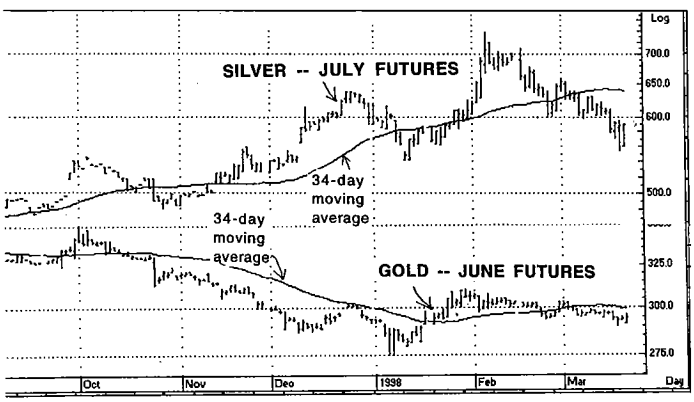
25 leading Internet companies (including America on Line) have a combined worth of $37 billion. But so far 20 of the 25 companies are losing money.

The Roman Catholic Church last week expressed deep sorrow for centuries of anti-Semitism. Jewish leaders had long-awaited a condemnation of Pope Pius XII and church officials across Europe for their failure to speak out and do more to avert the Holocaust. A few even accused Pope Pius XII of being anti-Semitic.

I can tell you that Pius XII was no anti-Semite. During World War II my flight crew (I was the bombardier) and I were given a ten-day leave from combat and we were directed to fly our B-25 bomber to Rome. What a treat. We enjoyed three days of sight seeing and ended up at the Vatican (this was in early 1945). As we walked around the Vatican a well-rounded Cardinal came up and asked us if we would like an audience with the Pope. Three of my crew were Catholic, and they immediately said "Yes." The Cardinal took us into a large room in the Vatican where we were brought before Pius XII. The Pope in broken English asked my crew whether they wished to be blessed. Of course they did, and they all stepped forward and kneeled, all but Richard Russell. The Pope asked me why I did not step forward with the rest of my crew. I told him the reason was that I was a Jew. Pius smiled broadly and told me that that was no problem, and that he wanted to bless me too. I stepped forward and received the Pope's blessing. When we got back to our base in Ancona, my guys boasted (kidding, of course) to other crews that "We're safe -- we've got the only Jew in the Air Force who's been blessed by the Pope."

PRECIOUS METALS: Despite Warren Buffett's major position in silver, the metal is not performing according to Buffett's wishes. Buffett stated that he bought silver strictly on a supply/demand basis and that his purchase had nothing to do with inflation. The market just isn't interested. From this year's extreme high of 7.30 recorded on February 5, the path for the silver metal (July futures) has been down. On March 16 July silver plunged below the psychologically significant level of 6.00. As this is written, silver is just below its long-term or 144-day moving average, which now stands at 5.77. Not an encouraging picture.

Despite the heaviest worldwide buying of gold in years, the yellow metal (June futures) continues to drift sideways, holding just below its 34-day moving average, which now stands at 298. As for the gold shares, my favorite, American Barrick Resources, is holding in the 19 area, but well above its low for the year (which was 15, struck on January 12). As a matter of fact, most of the gold shares are now moving sideways, yet holding most of their gains made during the January-February rally.

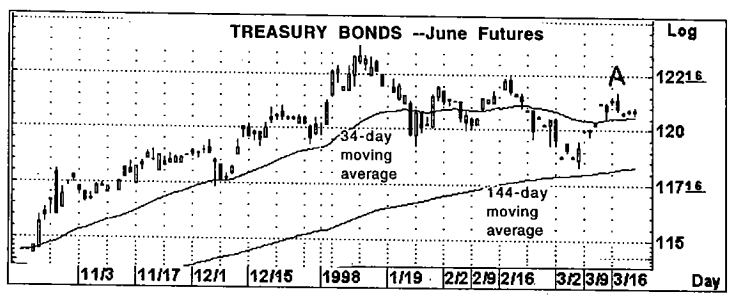


Russell Opinion: Gold isn't an investment; an investment provides a return. No, gold is insurance against the stupidity and corruption of politicians. The fact is that politicians have destroyed every currency ever created going back through history. And in due time, count on it, the pols will destroy the dollar (they've actually been doing exactly that since the 1940s).

Of course, as far as total destruction in concerned, the only question is the timing. Since nobody knows the timing, wealthy people protect themselves by buying land, commercial property, homes, stocks, jewelry, art, antiques, stamps, coins -- and gold. Right now the hottest tangible is huge spreads of land in booming Montana. Houses in trendy Aspen have already been priced out of the market, and co-ops and condos in NYC are in never-never land. Here in La Jolla the word is that there is "no inventory" and house prices are surging. So in many areas, wealthy people are swapping dollars for "things." But so far, two of the things are not gold or silver.

LATEST ON BONDS: Studying the chart we see three declining tops on the June futures and an extreme intra-day low of 118 10/32nds struck on March 6. What does this mean? My best guess -- bonds have now lapsed into a trading range. On March 19 following their most recent rally, bonds turned around and sank below their 34-day moving average, which now stands at 120 18/32nds. However, as you can see on the chart, the June bonds are still well above their March 6 low and even further above their 144-day moving average which now stands at 118 8/32nds.

Conclusion: US economy is hot, an obvious negative for bonds. But the Asian mess is far from over, and Asia is exporting



deflationary forces to the US, an obvious positive for bonds. Result: a bond stand-off or trading range. Long-term bonds are interesting, mainly because the higher the stock market rises, the closer it comes to the bull market's end. And when the bull market ends, bonds will be the place to be.

CHANGE: One of the time-honored axioms of the stock market was that "It takes **buying** to put the stocks up -- but without active buying stocks will fall of their own weight."

I don't think that axiom holds true any longer. And here's why. Index funds now constitute about 7% of all mutual funds. Money pours into index funds **automatically** every week if not every day. For example, in February a total of $19.6 billion went into equity mutual funds. Let's say 7% of this money went into index funds. That's about $1.4 billion dollars a month that automatically flows into index funds.

So today, in order for the market to decline, we must have **active selling,** selling that overcomes the automatic buying (mutual funds, index funds) that pours into the market each day, week and month. I think this reserves the old thesis of "stocks falling of their own weight." Now stocks rise on the basis of automatic buying by the public, and the only action that will reverse this is insistent, important selling by other than the "automatic buyers."

I understand that floor traders on the NYSE are flabbergasted by the relentlessness of the market advance. They are amazed that there has been no correction. My belief -- it will take insistent, powerful selling to overcome the current automatic buying. But once the stock market tops out and heads down in earnest and the auto-buyers pull in their horns -- watch out below.

LATE NOTES: This has to be the most uncorrected stock market advance I've seen in 45 years of watching the market. Everybody, it seems, is either buying or sitting tight while at the same time sellers are scarce. My "instinct" tells me that floor traders keep trying to short this market intra-day. But by the last few hours of trading when there's no sign of weakness -- they're forced to cover. Thus, each day's late-session surge. To the sky, baby.

NEXT MAILING: April 8, 1998